

IRS Employee Outside Employment Requests

Reference No. 091804 Report Date: January 13, 1999

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Redaction Legend:

1 = Tax return/Return information

3d = Identifying information - Other Identifying Information of an Individual or Individuals

**IRS Employee Outside
Employment Requests**

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Executive Summary Results and Recommendations

This report presents control findings noted during separate integrity reviews in the Northeast and Southeast Regions. During the course of these reviews we noted that portions of the Service's controls over outside employment of Service employees should be updated and automated. Although there have been government-wide changes, Internal Revenue Manual guidelines on outside employment have not been updated since 1986. A summary of our observations, and accompanying recommendations, follow:

- Interviews with 207 managers in two regions indicated that there were **mixed levels of understanding regarding their role in the Internal Revenue Service process for reviewing and approving requests for outside employment**. For example, Labor Relations is responsible for assisting management in their decisions on approving or disapproving outside employment requests. However, we interviewed first-line managers who believed that Labor Relations made the final decision on whether to approve these requests. (See page 5)

***Recommendation 1:** Update and clarify national guidelines on the processing, approval, and annual review of applications for outside employment. Clearly define the role and authority of both management and Labor Relations. In one major office, the person providing assistance to management by reviewing outside employment requests for appropriateness was a Labor Relations secretary.*

- **Neither management nor Labor Relations had complete information about employees' outside employment.** A cross check of information return records against Labor Relations' records in one region showed that Labor Relations did not have approved requests on file for 42 percent of employees with actual outside income. Tests in another region indicated parallel results. Similarly, a cross check with first-line managers in both regions showed that Labor Relations possessed only 50 percent of the approved outside employment requests held by first-line managers. (See page 5)

While TAPS (Totally Automated Personnel System) was available nationally, use of the system for recording and controlling outside employment information was not widespread or consistent in the two regions reviewed. For example, at the time of our inquiry in 1997, some Labor Relations sites had not input any outside employment information into the system, while others had only recently begun entering data from their paper records.

***Recommendation 2:** Fully implement an efficient, accurate, and automated system in each Labor Relations office, using the TAPS Outside Employment*

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System (OES) module for recording and controlling outside employment information on IRS employees.

Full implementation would also provide the additional benefit of automated information for performing the required annual reviews of approved outside requests. Of the nine Labor Relations offices we visited, only one had performed a recent annual review of approved outside employment requests. Another office had no record of ever conducting this required review.

Properly conducted annual verifications of outside employment ensure consistency and compliance with Service regulations, and can reduce the chance for improper outside employment activities. For example, we identified an instance where a manager of an IRS employee did not know that the employee was preparing tax returns for compensation. After we shared this information with the manager, the employee was instructed to cease this outside employment activity.

- **Existing Labor Relations' outside employment files were outdated and incomplete.** For example, a limited sample of outside employment requests on file at Labor Relations offices in one Region identified employees listed in outside employment records who were no longer employed by the Service. In addition, many of the approved requests on file were pre-1993 versions of the outside employment request (Form 7995), which *did not provide for the employee's social security number*. This increased the difficulty of entering the data on TAPS, and even positively identifying the actual employee. (See page 4)

***Recommendation 3:** Require a one-time resubmission of all outside employment requests (using Forms 7995 revised 1993 or after, which provide for the SSNs), to enable a national clean-up of Labor Relations' and managers' records.*

- While individual instances of potential violations of outside employment guidelines are still being followed up, we found no pattern of abuse of outside employment authorizations. However, in the two regions reviewed, Internal Audit referred 56 employees to Internal Security for **investigation as possible browsers of the computerized tax records of their outside employers, or their spouses' employers.** 1, 3d-----
1, 3d----- This portion of our review will be extended nationwide. (See Page 7)

***Recommendation 4:** Emphasize to employees that unauthorized research of the tax records of their outside employers, or the tax records of their spouses' employers, will subject them to disciplinary action.*

We are also recommending to the Chief Inspector's Centralized Case Development Center operation that its UNAX program incorporate an employer browsing analysis on a regular basis.

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The Chief Management and Finance has agreed with the facts and recommendations in the report.

Objectives and Scope

The objective of this report is to inform IRS management about employee outside employment control issues that should be strengthened and made more efficient.

The report's objective is to inform management about outside employment control issues. Various tests were performed to meet this objective

In developing this information, we reviewed:

- Approval procedures and processing of outside employment requests in the Northeast Region (NER) and the Southeast Region (SER), including a total of 11 districts, 4 service centers, one computing center and 11 appeals offices. We interviewed 207 managers at 27 locations.
- Outside employment regulations and procedures found in Federal, Treasury and IRS guidelines, as well as any regional or local guidelines. In addition, we discussed outside employment practices with National Office Labor Relations officials and with officials from the Office of Government Ethics.
- Outside employment information from a total of nine Labor Relations offices in the Northeast and Southeast Regions.
- Information collected from a total of 7,367 Forms 7995, filed at nine NER Labor Relations' sites, and then input to site specific databases for subsequent analysis.
- In conjunction with Internal Security, 948 employee cases with indications of outside employment, to determine if approved Forms 7995 were on file and whether the outside employment conflicted with the employee's official duties.

We conducted this review from January 1997 to December 1997 in the Northeast and Southeast Regions.

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Background

National Guidelines For Outside Employment

Employees should not engage in outside employment involving preparation of returns for compensation, or bookkeeping and/or accounting related to a tax matter. Also, an employee should not engage in legal employment or practice if the activities are affiliated with legal services involving Federal, State or local tax matters.

Employees submit requests for outside employment to their immediate managers on Forms 7995 (Outside Employment or Business Activity Requests). Requests are then forwarded through supervisory levels for approval. Copies of approved requests are provided to: employees through their immediate manager, each employee's Official Personnel File (OPF), and the servicing Metro Support Services (Labor Relations) office for centralized filing. Labor Relations' responsibilities include providing guidance to management on outside employment issues, and for reviewing the centralized files at least annually to ensure consistency and compliance with Internal Revenue Manual (IRM) regulations.

Documented guidelines are found in:

- IRM 0735.1, Section 220, dated November 26, 1986, which contains 11 year old procedures for the approval, processing, and annual review of outside employment requests.
- IRS Rules of Conduct (Document 7098), revised May 1989.
- Standards of Ethical Conduct for Employees of the Executive Branch, dated February 3, 1993.
- An Interim Handbook of Employee Conduct and Ethical Behavior, dated September 30, 1994 by the Service, which includes outside employment rules. This Handbook is almost identical to the IRM.

Employees are limited in the types of outside employment they can work.

Requests are approved by employees' managers and sent to Labor Relations for filing. Labor Relations is responsible for performing an annual review of these requests.

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- Treasury Supplement to OGE Standards and Revised Rules of Conduct, issued in 1995, which also includes outside employment rules.

Penalties for outside employment violations and unauthorized accesses to taxpayer information include removal.

Penalties for outside employment violations include removal for engaging in prohibited activities. In addition, the Taxpayer Browsing Protection Act was signed in August 1997 which designates willful unauthorized access or inspection of any taxpayer records as a crime, punishable by loss of job, fines, and possibly prison terms.

The Service recently updated the UNAX program that identifies and processes unauthorized accesses and inspection of taxpayer records. This program includes the Electronic Audit Research Log (EARL) that performs detection analysis of employees' activities on IDRS.

Integrity cases were identified involving outside employment.

Examples Of Employee Integrity Cases Involving The Abuse Of Outside Employment

- 1, 3d-----

- 1, 3d-----

- 1, 3d-----

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Results

Outdated manual controls over outside employment requests do not adequately support front-line managers who must oversee employees' outside employment activities.

Overall, operational managers were complying with IRS employment guidelines for approving outside employment requests. However, the support and guidance they receive could be improved. Outside employment records centrally maintained in Labor Relations' files were outdated and incomplete.

We noted that managers had inconsistent understandings on handling requests for outside employment, that annual verifications were rarely performed, and that the risk of improper outside employment activity was increased. In addition, the process was inefficient and paper-based, making research and follow-up difficult.

We suggest that management can strengthen the process, and simultaneously reduce the risk of improper employee outside employment activities by:

- Updating and streamlining the processing, controlling, and monitoring of outside employment requests.
- Emphasizing to employees that unauthorized research of tax records belonging to their outside employers, or their spouses' employers, will subject them to disciplinary action.

Updating And Streamlining The Processing, Controlling, And Monitoring Of Outside Employment Requests

Labor Relations' Outside Employment Files Were Outdated And Incomplete

Labor Relations can improve the control over outside employment requests.

Labor Relations is required to maintain a centralized file of all approved requests, and to initiate annual centralized reviews to determine if the approval is still appropriate. However, Labor Relations was not maintaining complete and updated outside employment records.

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Fifty percent of outside employment requests received from managers were not in Labor Relations' files.

- Only 50 percent of the approved outside employment requests provided to us by first-line managers from two Regions were found in Labor Relations' files.
- Centralized paper files of Forms 7995 found at Labor Relations sites in one region contained requests for former employees, as well as for current employees which pertained to outside employment activities no longer performed.
- Earlier versions of Form 7995, many still on file, did not provide for employee SSNs. Besides making any follow-up difficult for Labor Relations, the SSNs are needed for input to the OES database.

Neither Management Nor Labor Relations Had Complete Information About Employees' Outside Employment

Approved outside employment requests were not always on file for employees with sources of outside employment income.

A cross check of information return records, containing sources of outside income for 602 employees in one region, to Labor Relations' records showed that Labor Relations did not have approved requests on file for 253 (42%) of the employees. Contact with management for 179 of the 253 employees showed that managers could not locate approved employment requests for 98 (55%) of the employees. Similar conditions were indicated in the other region tested.

Various factors, such as information return reporting errors, dates of IRS employment, and misfiled Forms 7995, could account for these discrepancies.

The Role Of Labor Relations Was Not Clear

Interviews with first-line managers indicated that there were mixed levels of understanding regarding their role, and the role of Labor Relations, in the review and approval of outside employment requests. For example, these managers believed that the approval decision was actually made by Labor Relations. However, Labor Relations' role in the approval process pertains to assisting and guiding management since managers are responsible for the approval of outside employment requests.

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One Labor Relations office had a secretary reviewing outside employment requests for appropriateness.

We found that eight of the nine Labor Relations offices in the two Regions had either a Labor Relations Specialist or Assistant review the initial requests for appropriateness. However, the one other office had the Labor Relations secretary review all outside employment requests. A Specialist was contacted only when the secretary questioned the appropriateness of the request. The basis for the secretary's review was whether a similar type of outside employment had been previously approved. If found, the secretary concurred with the new request.

Annual Centralized Reviews Were Discontinued

At the time of our review, only one of nine Labor Relations offices in the two regions visited had performed a recent annual review of approved requests.

Labor Relations was not performing the required annual reviews on outside employment requests.

- The most recent annual review completed by any Labor Relations office in the Northeast Region was in June 1995. Another office in this region never completed a review. The most recent annual review performed in the Southeast Region was in February 1997.
- A probable contributing factor was that Labor Relations' Forms 7995 files were not centralized to allow for comprehensive and complete annual reviews. In the Northeast Region, four former district offices maintained their Forms 7995, and never sent them to their servicing Labor Relations site for centralized filing. We found that one of these former districts had lost all requests approved prior to April 1996, when it merged with another district. A database containing these requests was also lost, and the paper Forms 7995, used to create the database, had been previously discarded. Seven Appeals Offices and one district office Collection Division in NER were not forwarding their requests to Labor Relations. One Labor Relations office was still searching for requests belonging to a former SER district office at the time of our review.

Previously approved outside employment requests were neither centralized nor complete to allow for comprehensive annual reviews.

Properly conducted annual verifications of outside employment ensure consistency and compliance with

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Service regulations, and can reduce the chance for improper outside employment activities. For example, we identified an instance where a manager of an IRS employee did not know that the employee was preparing tax returns for compensation. After we shared this information with the manager, the employee was instructed to cease this outside employment activity.

IDRS Browsing Cases Were Found Involving Outside Employment

A total of 56 employees were referred to Internal Security for browsing employers' accounts on IDRS.

In the two regions, 56 employees were referred to Internal Security as possible browsers. 1, 3d
1, 3d-----
1, 3d-----

This portion of our review will be extended nationwide.

Recommendations

Management agreed to four recommendations that would (1) update and streamline the processing, controlling, and monitoring of outside employment requests; and (2) emphasize the consequences of unauthorized research to employers' accounts.

1. Update and clarify national guidelines on the approval and annual review of applications for outside employment, and include this information on Form 7995, Request for Outside Employment or Business Activity Request. Clearly define the role and authority of both management and Labor Relations. Procedures should include the types of outside employment that warrant careful review for possible conflict, or the appearance of conflict, with official IRS duties. Examples include collection, legal, accounting, and bookkeeping activities, as well as investigative activities, such as searching for missing persons.

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Management will update and clarify national guidelines regarding the approval and review of outside employment requests.

Management's Response: Management will revise the Users' Guide for the Totally Automated Personnel System (TAPS) Outside Employment System (OES) module. They will also revise national guidelines on the processing, approval, and annual review of applications for outside employment and include any necessary updates from the revised Users' Guide.

2. Fully implement an efficient, accurate, and automated system in each Labor Relations office, using the TAPS Outside Employment System (OES) module for recording and controlling outside employment information on IRS employees. This will also provide for the required annual review by automatically issuing the review letter available on TAPS. Issue these letters along with employee annual performance evaluations to allow consistency in insuring when the annual reviews are actually performed. This should insure that the annual review process follows the employee to any new IRS position that could have responsibilities which now conflict with previously approved outside employment activities.

The TAPS OES module will be used to record and control employee outside employment information.

Management's Response: Management will fully implement the use of the TAPS OES module for recording and controlling outside employment information on IRS employees.

3. Require a one-time resubmission of all outside employment requests to enable a national clean-up of Labor Relations' and managers' records. Use the current version of the request (Form 7995), which provides for entry of employees' social security numbers. Insure managers emphasize to employees that outside employment also includes self-employment activities that are reported on Schedule C, Profit or Loss from Business.

Management will conduct a one-time national clean-up of outside employment records.

Management's Response: Management will conduct a one-time resubmission of all outside employment requests to enable a national cleanup of Labor Relations' and mangers' records. Since

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many requests are submitted by seasonal employees and processed during the filing season, they will schedule this resubmission to coincide with the end of the next filing season.

4. Emphasize to employees that unauthorized research of the tax records of their outside employers, or their spouses' employers, will subject them to disciplinary action.

Management took action to emphasize the seriousness of Unauthorized Accesses to Taxpayer Accounts (UNAX).

Management's Response: Briefing sessions were held for all managers and labor relations specialists to explain the Taxpayer Browsing Protection Act, which tightened existing laws and made Unauthorized Access to Taxpayers (UNAX) records a crime which is punishable by loss of jobs, fines, and may also result in prison terms. Additional information was contained in the Supplemental Guide for the IRS' Awareness Briefing on Unauthorized Access, Document 10391.

We also recommend that Inspection, or the upcoming Inspector General, incorporate an outside employer browsing match as part of the UNAX Program. This includes matching Information Return data for IRS employees to IDRS audit trail information to identify employees who accessed their outside employers' accounts, or accounts belonging to their spouses' employers.

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Attachment I

Detailed Objectives and Scope

1. We determined the consistency of execution of Northeast (NER) and Southeast (SER) Region management's outside employment approval and review processes, and their compliance with National and local procedures for detecting and/or deterring prohibited or conflicting outside employment. Specifically, we:
 - A. **Evaluated managerial compliance with outside employment request processing guidelines throughout NER and SER.** We interviewed 207 managers, including 183 first line managers, from 27 locations in two regions to identify the approval and review procedures of outside employment requests for NER and SER employees. We also interviewed 9 Labor Relations offices to determine procedures.
 - B. **Evaluated managerial consistency in processing outside employment requests throughout NER and SER.** Compared the above-identified NER and SER processes for consistency.
 - C. **Prepared a briefing document for the NER Regional Inspector that contained the NER results of the above analyses.**
2. We identified, through joint work of Inspectors and Auditors, any additional instances (not shown in existing investigations) in which any NER employee's outside employment or business interest might have been in violation of outside employment guidelines or conflict with official work hours, or the employee's reporting of the income or expenses from that employment may not be in compliance with tax laws. Specifically, we reviewed:
 - A. **Conflicts between the type or extent of outside employment approved for an employee, and the employee's official IRS duties.** Analyzed a judgmental sample of Forms 7995 from each office to determine if the approved outside employment, as shown on the form, conflicts with the official IRS duties of the employee per their current job title. Internal Security helped identify potentially conflicting Forms 7995 and investigated whether conflicts existed.
 - B. **Possible unapproved outside employment.** Analyzed Master File data for two regions to identify instances in which employees receiving outside wage or business income do not have managerially approved Forms 7995 on file accurately reflecting their outside work status. Investigated identified cases as appropriate.

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ATTACHMENT II



CHIEF MANAGEMENT
AND FINANCE

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

NOV - 2 1998

MEMORANDUM FOR WILLIAM F. GILL III
REGIONAL INSPECTOR, NORTHEAST REGION

FROM: David A. Mader
Chief Management and Finance

SUBJECT: Draft Internal Audit Report - IRS Employee Outside Employment
Requests (980006)

We have reviewed your memorandum dated August 6, 1998, concerning the issues regarding Employee Outside Employment Requests. Following are the identified findings and the corrective actions that need to be completed.

IDENTIFICATION OF FINDING 1/:

Interviews with 207 managers in two regions indicated that there were mixed levels of understanding regarding their role in the Internal Revenue Service process for reviewing and approving requests for outside employment.

ASSESSMENT OF CAUSE:

Current guidance from the National Office has not been updated since 1995. Limited resources had been allocated to this program due to higher level priorities and reductions in staffing.

RECOMMENDATION 1/1:

Update and clarify national guidelines on the processing, approval, and annual review of applications for outside employment. Clearly define the role and authority of both management and Labor Relations.

CORRECTIVE ACTION 1/1/1:

Review and revise the User's Guide for the current Totally Automated Personnel System (TAPS) Outside Employment System (OES) module.

PLANNED COMPLETION DATE:

April 1, 1999

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RESPONSIBLE OFFICIAL:

National Director, Personnel Division

CORRECTIVE ACTION 1/1/2:

Revise national guidelines on the processing, approval, and annual review of applications for outside employment. Such guidelines will clearly define the role and authority of both management and Labor Relations and include necessary updates from the revised Users' Guide, referenced in Corrective Action 1/1/1.

PLANNED COMPLETION DATE:

October 1, 1999

RESPONSIBLE OFFICIAL:

Director, Office of Labor Relations

IDENTIFICATION OF FINDING 2/:

Neither management nor Labor Relations had complete information about employees' outside employment.

ASSESSMENT OF CAUSE:

Specific procedures covering tracking of outside employment information via TAPS were not developed due to limited resources.

RECOMMENDATION 2/1:

Fully implement an efficient, accurate, and automated system in each Labor Relations office, using the TAPS OES module for recording and controlling outside employment information on IRS employees.

CORRECTIVE ACTION 2/1/1:

Fully implement the use of the TAPS OES module for recording and controlling outside employment information on IRS employees.

PLANNED COMPLETION DATE:

January 1, 1999

RESPONSIBLE OFFICIAL:

Director, Office of Labor Relations

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IDENTIFICATION OF FINDING 3/:

Existing Labor Relations' outside employment files were outdated and incomplete.

ASSESSMENT OF CAUSE:

Limited resources were allocated to this program due to higher level priorities and reductions in staffing. Additionally, field reorganizations such as the Regional/District Management Consolidation (RMDC) and Resources Management Support Services (RMSS), as well as the 1996 buy-out, resulted in loss of knowledgeable, experienced personnel in Labor Relations functions

RECOMMENDATION 3/1:

Require a one-time resubmission of all outside employment requests (using Forms 7995 revised 1993 or after, which provide for the SSNs), to enable a national clean up of Labor Relations' and managers' records.

CORRECTIVE ACTION 3/1/1:

Conduct the above one-time resubmission of all outside employment requests to enable a national cleanup of Labor Relations' and managers' records. Since many requests are submitted by seasonal employees and processed during the filing season, schedule this resubmission to coincide with the end of the next filing season.

PLANNED COMPLETION DATE:

July 1, 1999

RESPONSIBLE OFFICIAL:

Director, Office of Labor Relations

IDENTIFICATION OF FINDING 4/:

In two regions reviewed, Internal Audit referred 56 employees to Internal Security for investigation as possible browsers of the computerized tax records of their outside employers, or their spouses' employers.

ASSESSMENT OF CAUSE

Possible causes may include insufficient education and inconsistency in adjudication of Unauthorized Access (UNAX) violations prior to the 1997 legislation.

RECOMMENDATION 4/1:

Emphasize to employees that unauthorized research of the tax records of their

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outside employers, or the tax records of their spouses' employers, will subject them to disciplinary action.

CORRECTIVE ACTION 4/1/1:

Briefing sessions will be held for all managers and labor relations specialists to explain the Taxpayer Browsing Protection Act, which tightened existing laws and made Unauthorized Access to Taxpayers (UNAX) records a crime which is punishable by loss of job, fines, and may also result in prison terms. Additional information will be contained on pages 3 - 4 in the Supplemental Guide for the IRS' Awareness Briefing on Unauthorized Access - UNAX, Document 10391 (12-97)

COMPLETION DATE:

Completed February 16, 1998

RESPONSIBLE OFFICIAL:

Director, Office of Labor Relations

If you have any questions or concerns please contact Robert Buggs, Acting Director, Office of Labor Relations, at (202) 622-7542 or have a member of your staff contact Dartene DesJardins at (202) 622-8855.